SEP 12 1983

No. 83-221

IN THE

Supreme Court of the United States

October Term, 1983

CELINA B. MESTRE, Personal Representative
of the Estate of Luis Mestre, deceased,

Petitioner,

v.

PITNEY BOWES INC.,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE ELEVENTH CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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September 9, 1983

QUESTIONS PRESENTED

The questions petitioner presents for review may be stated more accurately as follows:

1. Whether the royalty obligations under an agreement licensing trade secrets and patents survive the expiration of the licensed patents where the agreement allegedly requires the licensee to pay royalties after expiration of the last-expiring patent at the same rate and on the same basis as before expiration?

2. Whether this Court should review the lower court's injunction against arbitration where (i) the Court of Appeals refused to consider the injunction against arbitration because it lacked jurisdiction, and (ii) disposition of the claims is governed by federal patent law and policy?

STATEMENT UNDER RULE 28.1

Pursuant to Rule 28.1 of this Court, respondent Pitney Bowes Inc. states that it has the following divisions and subsidiaries: Artec Div., Data Documents, Inc., Dictaphone Corp., Monarch Marking Systems, Inc., Pitney Bowes Credit Corp., and Wheeler Group Inc.

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STATEMENT OF THE CASE

Mestre's statement of the case requires the following elaboration.

1. The License Agreements

Mestre's description of the four machine agreements and the Amendment Agreement omits important aspects of the agreements.

The 1965 Amendment Agreement confirmed that the 1958 Rotary Collator Agreement was a license to make and sell "the rotary collator which is more fully described in applications for letters patent," and also defined the machines in the other three machine agreements by reference to other patents. B-11.*

The Amendment Agreement modified the term of the Rotary Collator Agreement to "continue in full force and effect for seventeen (17) years, or for

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* For the convenience of the Court, citations herein are made, whenever possible, to the petition for certiorari ("Pet.") and to the appendices A through G that are included in the petition.

the term of any patent or patents which now or hereafter may issue ..., whichever is greater ...." B-12 n.15. No provision provides for payment of royalties after expiration of the term of the Rotary Collator Agreement, nor is there any provision altering the royalty rate at the time the patents expire.

The 1959 Vertical Collator Agreement provided for expiration of the agreement after seventeen years, the expiration of the licensed patent, or the death of Mestre, whichever was later. The 1962 A-10 Collator and 1965 Auto-Sorter Agreements -- like the Rotary Collator Agreement -- were to continue for seventeen years or for the term of any licensed patent, whichever period was longer.

No provision in any of the agreements provides for an altered royalty

rate -- or any royalty at all -- after the agreement expires, and Pitney Bowes has consistently maintained that no such post-expiration royalty was ever intended or agreed to by the parties.

2. Proceedings in the District Court

Mestre correctly states that the District Court held each of the Vertical Collator, A-10 Collator, and Auto-Sorter Agreements to be a hybrid trade secret/patent agreement which ends on the expiration date of the last-to-expire patent licensed under the agreement, and the Rotary Collator Agreement to be solely a trade secret/know-how agreement. The Court reserved for trial the issue of when the Rotary Collator Agreement expired, and found nothing in any of the four machine agreements to prevent Pitney Bowes from manufacturing and marketing

licensed machines after the agreements expire without further royalty obligation.

The District Court also held that none of the four agreements provided either a royalty obligation, or a reversion of any rights to Mestre, after expiration of the agreement. Nevertheless, the Court raised on its own, and reserved for trial, the issue of whether Mestre has an implied reversionary interest in any trade secrets. The Court noted (B-25 n.30):

> "While intimating no view on the merits of the argument, the Court notes that, inasmuch as the Vertical, A-10 and Auto-Sorter Collator Agreements are hybrid trade secret/patent licenses, it can be argued that policies underlying federal patent law would be at odds with the operation here of any state trade secret law which required Pitney-Bowes to make royalty payments on machines sold after expiration of the agreements. Since the parties have not briefed this issue, the Court is simply unprepared, at this juncture, to consider it."

3. Proceedings in the Court of Appeals

The Eleventh Circuit, in an opinion by Judge Johnson, affirmed the District Court's holding that the Vertical Collator Agreement was a "hybrid" agreement which expired on the expiration date of the licensed patent. First, the Court noted that the agreement granted Pitney Bowes the "sole and exclusive right" to manufacture and market the Vertical Collator as described in then-pending patent applications. Next, the Court considered Brulotte v. Thys Co., 379 U.S. 29 (1964), and determined that Brulotte applies to hybrid agreements (A-12):

> "The Brulotte licenses therefore were, like the Vertical Collator Agreement before us, hybrid licenses for both patent and non-patent consideration. If Mestre's argument -- that non-patent consideration in a licensing agreement renders Brulotte inapplicable -- were correct, then the Court in Brulotte would have enforced the use licenses beyond the expiration of the patents. Instead,

> the Court cut off both the patent and non-patent royalties."

The Court of Appeals also found Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979), and Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974), to be entirely consistent with this result. A-12-13. The Court observed that the royalty agreement in Aronson covered both patent and trade secret rights. It highlighted the distinguishing aspects of the Aronson license agreement (A-12):

> "The agreement provided for a royalty of 5% of keyholder sales for as long as sales continued, but it also provided for a reduction of royalties to 2 and 1/2% if no patent issued within five years. No patent issued within that time and the manufacturer reduced his royalty payments accordingly."

Finally, the Eleventh Circuit pointed out that the Aronson Court (A-13):

> "even agreed that, if a patent had issued, all royalty obligations would have ceased after 17 years. We find this significant because it clearly indicates that the

> Supreme Court is willing under certain circumstances to apply Brulotte to terminate royalty rights under a hybrid agreement licensing patent rights and trade secrets."

In Kewanee, where no patent was even applied for, and Aronson, where no patent ever issued, there was no potential for direct conflict between federal patent law and state trade secret law. A-13.

The Court of Appeals found that requiring royalty payments under the Vertical Collator Agreement beyond the date of patent expiration would conflict with federal policy (A-14):

> "First, the 'exclusive rights' granted under the agreement applied equally before and after expiration of the patent.... Second, the agreement required Pitney Bowes to pay royalties at the same rate and on the same basis after the patents expired that it paid while the patent was in effect. Assuming that the value of the agreement to Pitney Bowes was not as high after the patents expired, it is reasonable to assume that at least some part of the post-expiration payment constituted an effort to extend payments for patent rights beyond

> the patent period. Thus, we conclude that the Vertical Collator Agreement is unenforceable under Brulotte." (footnote omitted)

The Court of Appeals noted that Mestre conceded at oral argument on appeal that the Rotary Collator Agreement was a hybrid agreement, just like the other three license agreements.* Stating that the District Court "may choose to accept this concession", the Court of Appeals concluded that the Rotary Collator Agreement would thus expire upon the expiration of the last licensed patent on the rotary collator. A-15 n.13.

The Court also dismissed Mestre's purported appeal of the District Court's

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* Indeed, Mestre's briefs on appeal also admitted that the Rotary Collator Agreement was a hybrid agreement, even though Mestre had argued strenuously for three years in the District Court that the Rotary Collator Agreement was purely a trade secret agreement, and had induced that Court to adopt Mestre's erstwhile position.

injunction against arbitration because Mestre made no mention of the injunction in his Notice of Appeal. The Notice of Appeal (A-17):

> "specifically stated that the appeal was only 'from those portions' of the order that dealt with issues raised in the summary judgment motions. In fact, the notice made that clear by specifically listing each issue on summary judgment; the injunction, which was not one of the issues dealt with on summary judgment, was not listed."

Moreover, because Mestre specifically omitted from his Notice of Appeal any reference to the injunction, the Court was unable to discern that Mestre had an "overriding intent" to appeal the injunction. A-17.

REASONS FOR DENYING THE WRIT

1. The Decision Of The Eleventh Circuit Was Correct

Mestre argues that this Court has never addressed the question "whether a

hybrid agreement in which patents issue can ever survive the expiration of the patents." But, as the Court of Appeals recognized, this case does not raise that broad, speculative issue. A-13 n.12. And this Court has considered whether royalty obligations under hybrid agreements like those involved here survive the expiration of the patents.

Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979), applied Brulotte v. Thys Co., 379 U.S. 29 (1964), to facts similar to those now before the Court.*

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* Brulotte held that it was unlawful to project the patent monopoly beyond the seventeen year term of the patent. Thus, an agreement compelling royalties to be paid for use of a patented invention after the patent expires was held to be unenforceable. 379 U.S. at 33-34. Subsequent decisions have rejected any device to extend patent royalty payments beyond expiration of patents, such as Mestre's trade secret contentions in this action. See, e.g., Veltman v.

[footnote continued on following page]

In Aronson, the parties agreed that Quick Point would pay a 5% royalty if a patent issued on Aronson's keyholder, and, if no patent issued within five years, a 2 1/2% royalty as long as Quick Point continued to sell the keyholder. No patent issued. On those facts, this Court concluded that nothing had occurred to invoke federal patent policy, and enforced the unambiguous perpetual obligation to which the

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[footnote continued from preceding page]

Norton Simon, Inc., 425 F.Supp. 774, 775 (S.D.N.Y. 1977); Pipkin v. FMC Corporation, 427 F.2d 353, 357 (5 Cir. 1970); Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678, 681 (6 Cir. 1966). Accord, Scapa Dryers, Inc. v. Abney Mills, 269 F.2d 6, 13 (5 Cir. 1959), cert. denied 361 U.S. 901 (1959).

parties had agreed.* 440 U.S. at 262, 264. However, if a patent had issued, all royalty obligations would have ceased upon expiration of the patent (440 U.S. at 263-64):

> "It is quite true that had she succeeded [in obtaining a patent], she would have received a 5% royalty only on keyholders sold during the 17-year life of the patent. Offsetting the limited terms of royalty payments, she would have received twice as much per dollar of Quick Point's sales, and both she and Quick Point could have licensed any others who produced the same keyholder. Which course would have produced the greater yield to the contracting parties is a matter of speculation; the

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* In the present case, unlike Aronson, the District Court expressly found no such perpetual obligation. Instead, the District Court left for trial only the question of whether some reversionary obligation should be implied after expiration of an agreement. B-22-24.

> parties resolved the uncertainties by their bargain."*

Thus, the decisions by the District Court and the Eleventh Circuit are entirely consistent with the pronouncements of this Court. Nor does Mestre point to any inconsistent decision from another circuit, because there is none.

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* Mestre contends that the Court did not mean that the trade secret royalty obligation would thereby end. But such an interpretation completely ignores the Court's reference to "limited terms of royalty payments" and the language: "Which course would have produced the greater yield to the contracting parties is a matter of speculation...." If the patent had issued, there would have been two possibilities: (i) a 5% royalty for the seventeen-year patent term and no subsequent royalty at all, or (ii) a 5% royalty for the patent term followed by a 2 1/2% continuing royalty for use of the trade secrets. If the Court had contemplated the latter, that "course" would <u>always</u> produce a greater yield than a 2 1/2% royalty if no patent issued. There would then be no "speculation" as to which course would produce the greater yield.

Compare Timely Products, Inc. v. Costanzo, 465 F.Supp. 91 (D.Conn. 1979).

Accordingly, there is no reason for this Court to review the merits of the decision below.

2. This Court Should Not Review The Injunction Against Arbitration

Mestre's belated attempt to overturn the injunction against arbitration should be rejected.* That issue is not properly before this Court, just as it was not properly before the Court of Appeals.

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* Mestre could have sought prompt review of the District Court's November 8, 1978 injunction against arbitration, see Rule 4(a), F.R.App.P., as has ordinarily been done in the reported cases. However, Mestre chose instead to take extensive discovery and to seek summary judgment, all of which consumed over three years of proceedings in the District Court. It was only after the District Court denied summary judgment to Mestre and awarded partial summary judgment to Pitney Bowes in 1982 that Mestre's interest in arbitration was rekindled.

In any event, the decisions from other circuits which Mestre contends are inconsistent with the District Court's injunction are in fact distinguishable from the facts of this case.

a. The Court Of Appeals Correctly Refused To Consider The Injunction Because It Lacked Jurisdiction

The Court of Appeals did not reach the merits of the injunction against arbitration. A-18 n.17. The Court held only that it lacked jurisdiction to consider the injunction because Mestre failed to mention in any way the injunction in his Notice of Appeal. A-15.

Only two facts on this record need be mentioned: (1) Mestre's Notice of Appeal specifically stated that his appeal was "from those portions" of the District Court's Orders and Partial Final Judgment which dealt with the issues

raised in the cross-motions for summary judgment (and did not mention the 1978 Order enjoining arbitration); and (2) Mestre, in his Notice, specifically listed each issue decided on the cross-motions for summary judgment from which he sought to appeal. See G-1-4. The injunction against arbitration was not included.*

By holding that it had no jurisdiction under these circumstances, the Eleventh Circuit was applying law uniformly applied by the other Circuits. E.g., C.A. May Marine Supply Co. v. Brunswick Corp., 649 F.2d 1049, 1056 (5 Cir. 1981), cert. denied 454 U.S.

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* Mestre's suggestion that the District Court's 1982 decision denying Mestre's summary judgment motion -- rather than the Court's Order four years earlier -- "deprived Mestre of arbitration" is transparently wrong (Pet. 11 n.7).

1125 (1981); Elfman Motors, Inc. v. Chrysler Corp., 567 F.2d 1252, 1254 (3 Cir. 1977); Cole v. Tuttle, 540 F.2d 206, 207 (5 Cir. 1976); Symons v. Mueller Co., 526 F.2d 13, 19 (10 Cir. 1975).

Contrary to Mestre's assertion (Pet. 11 n.7), the Eleventh Circuit's decision was not inconsistent with Foman v. Davis, 371 U.S. 178 (1962). In Foman, the appellant had filed a premature Notice of Appeal from a judgment, followed by a second Notice of Appeal from the District Court's subsequent denial of appellant's motions to vacate the judgment. This Court found an intent to appeal from the judgment, even though the second Notice did not specifically refer to the judgment. Id. at 181. Here, nothing in Mestre's Notices of Appeal indicated any intention to appeal the injunction.

Mestre relies on other decisions for the proposition that the Notices of Appeal reflected an intent to appeal the injunction Order (Pet. 11 n.7). Those decisions are plainly distinguishable. In those cases, Notices of Appeal from certain rulings on the merits were held to reflect an intent to appeal also from underlying rulings on the merits which were referred to in the later rulings. Here, nothing suggested in any way an intention to appeal the Order enjoining arbitration, which had been entered more than three years earlier.

b. The Dispute Between The Parties Should Not Be Arbitrated Because Federal Policy Governs Its Resolution

Furthermore, on the merits, Mestre's arguments fail. Mestre asserts that resolution by this Court of the federal policy issue would leave only questions

of state law to be decided -- whether royalty obligations survive expiration of licensed patents and whether, after expiration of a machine agreement, Mestre has implied-in-law or implied-in-fact reversionary rights. Thus, Mestre contends, those are "state law" questions that should be arbitrated.

Mestre's assertion that only "state law" questions remain is wrong. With respect to the enforceability of a royalty requirement which continues after the licensed patents have expired, affirmance of the Eleventh Circuit's decision would dispose of that issue, leaving for trial only the question of any implied reversionary rights.*

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* The other issue left for trial by the District Court -- the date on which the Rotary Collator Agreement expired -- has been effectively mooted by Mestre's concession in his briefs and argument in the Court of Appeals (A-15 n.13) that the Rotary Collator Agreement is a hybrid agreement. See p. 9, supra.

However, that remaining question cannot be adjudicated without deciding whether federal law precludes a reversion of trade secret royalty rights from being implied when the patents licensed under a hybrid agreement, as well as the agreement itself, have expired. The District Court and the Court of Appeals have already suggested that the question of reversionary rights is not arbitrable because that queston, too, is dependent upon the application of federal law and policy. A-18 n.17; B-25 n.10.*

Every case cited by Mestre as supposedly being in conflict with the

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* Mestre also does not explain why the arbitration clause should apply to a question that would only arise after the agreements have expired. At a time when the agreements between the parties are no longer in existence, there is also no longer an arbitration clause. For this separate reason, the remaining issue should not be arbitrated.

District Court's decision concerned the arbitrability of state law claims where separately-pleaded federal claims and state claims are present in the same case. Those cases considered whether a federal court can deny arbitration as to pendent state claims where the court is also asked to decide non-arbitrable federal claims. E.g., Miley v. Oppenheimer & Co., 637 F.2d 318, 334 (5 Cir. 1981) (federal securities law claim and state law breach of fiduciary duty claim); Dickinson v. Heinold Securities, Inc., 661 F.2d 638, 640 (7 Cir. 1981) (federal securities law claims and state law tort and contract claims); Lee v. Ply*Gem Industries, Inc., 593 F.2d 1266, 1267-68 (D.C. Cir. 1979) (federal antitrust claims and state common law claims of fraud, breach of contract, and breach of fiduciary duty). Some circuits have applied the so-called

"doctrine of intertwining" in such cases to hold that none of the claims can be arbitrated, while other circuits have ruled that the state claims should be arbitrated.

The decisions relied on by Mestre are inapplicable to the present case. The District Court enjoined arbitration because each claim presented "issues too intertwined with federal law and policy to be arbitrable." Pitney Bowes, Inc. v. Mestre, 203 USPQ 554 (S.D.Fla. 1978). The District Court was not faced with separate non-arbitrable federal claims and arbitrable state claims. Instead, the claim in this case -- a request for a declaration as to Mestre's right to post-patent expiration royalties -- had potentially conflicting federal and state law aspects.

Thus, the District Court's decision did not conflict with decisions of other

circuits. Indeed, the decisions cited by Mestre actually support the action taken by the District Court in enjoining arbitration, because those decisions hold that claims that turn on the application of important federal policies are not arbitrable. See Lee v. Ply*Gem Industries, Inc., 593 F.2d 1266, 1274 (D.C. Cir. 1979); Dickinson v. Heinold Securities, Inc., 661 F.2d 638, 644 (7 Cir. 1981); Helfenbein v. International Industries, Inc., 438 F.2d 1068, 1070 (8 Cir. 1971); American Safety Equipment Corp. v. J.P. Maguire & Co., 391 F.2d 821, 826-27 (2 Cir. 1968).

CONCLUSION

A writ should not be granted.

Respectfully submitted,

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